Wyoming Healthcare Commission
Reinsurance Study Review and Discussion

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Agenda

- Refresh Commission on reinsurance study
- Provide background on reinsurance
- Review alternative reinsurance designs
  - Unsubsidized models
    - Prospective (similar to current) or retrospective (similar to outside reinsurance contracts)
  - Subsidized models
    - Subsidy to all small groups, selected groups (and/or previously uninsured individuals), or mixed
  - Estimated impacts to help guide direction for more detailed analysis

About Leif Associates

- Denver based health care actuaries
- Began in 1995
- 11 employees including 5 credentialed actuaries
- Government purchaser clients include TRICARE, Colorado Medicaid and CHP, and uninsurable risk pools for several states
- Large employer clients include State of Colorado and University of Colorado
- Insurance carrier / HMO clients include Rocky Mountain Health Plans and WINhealth Partners

Background on Study

WHCC's intent in establishing the study

- Determine if reinsurance can be used as a mechanism to make rates more lower and more predictable.
- Determine if there are better mechanisms for spreading the cost of reinsurance across a broader base.
- Determine the degree of potential subsidy necessary to increase coverage by making a significant reduction in the cost of insurance.

Background on Study

The reinsurance study will:

- Use Wyoming data to model the impact of alternative reinsurance programs.
- Assess the impact on carrier pricing of different levels of reinsurance reimbursement and risk spreading.
- Create an analytical framework for assessing the scope and impact of any proposed modification to Wyoming reinsurance pool(s).

Background on Reinsurance

- Reinsurance
  - Pooling of risk to minimize financial fluctuations
  - Without allocating cost to a group broader than the benefactors, by itself reinsurance spreads costs without lowering cost
  - Generally voluntary with lesser value to larger, diversified organizations
  - Mitigate the risk of new markets or new underwriting rules, and thereby decreasing the need for overly conservative assumptions

Background on Reinsurance

- What Wyoming has
  - Wyoming Health Insurance Pool (WHIP) – uninsurable individual risks; funded by capped premiums and health carrier assessments when premiums exceed claims; 700+ participants
  - Wyoming Small Employer Health Reinsurance Program (WSEHRP) – voluntary prospective ceding of small group individual or group risk; mandatory small group carrier assessments when WSEHRP reinsurance premiums exceed claims; 28 participants

Background on Reinsurance

- Small employer pool in States
  - Small group reinsurance pools have limited activity, or are dormant or nonexistent in several states
  - Limited need with larger carriers and maturity of small group guarantee issue market
- What modifications, if any, to existing structures help meet objectives of the WHCC:
  - The WHCC is charged with examining a wide range of healthcare issues and drafting specific recommendations to improve access to, and quality of, healthcare in Wyoming communities.

Cost and Quality Management

- Reinsurance programs spread risk and, if subsidized can reduce costs to the purchaser

……..HOWEVER

  - Reinsurance only splits cost amongst parties, and
  - Without cost and quality management (lowering the rate of increase) the overall rate of health care increases will surpass impact of reinsurance savings

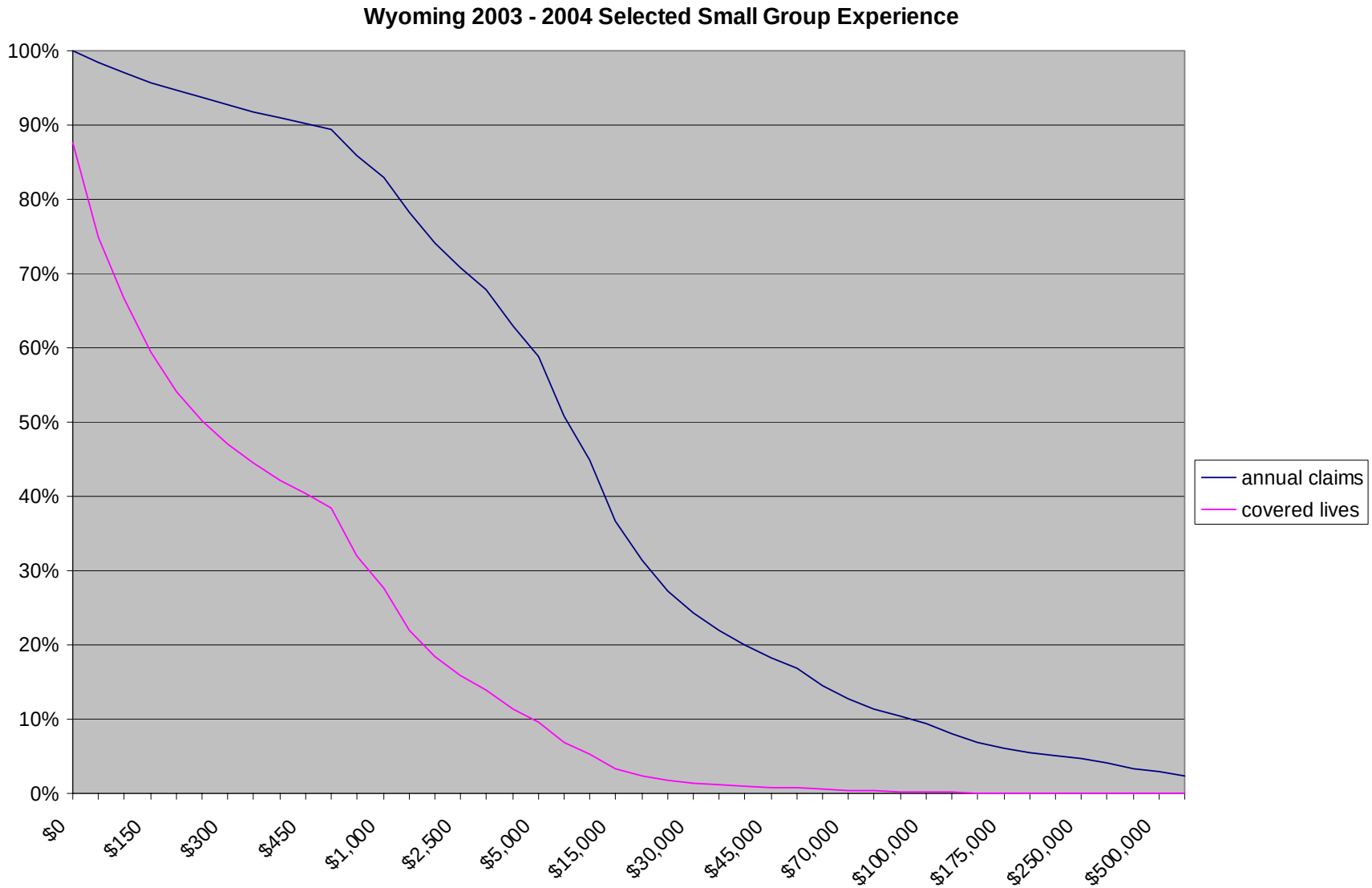
Carrier Survey

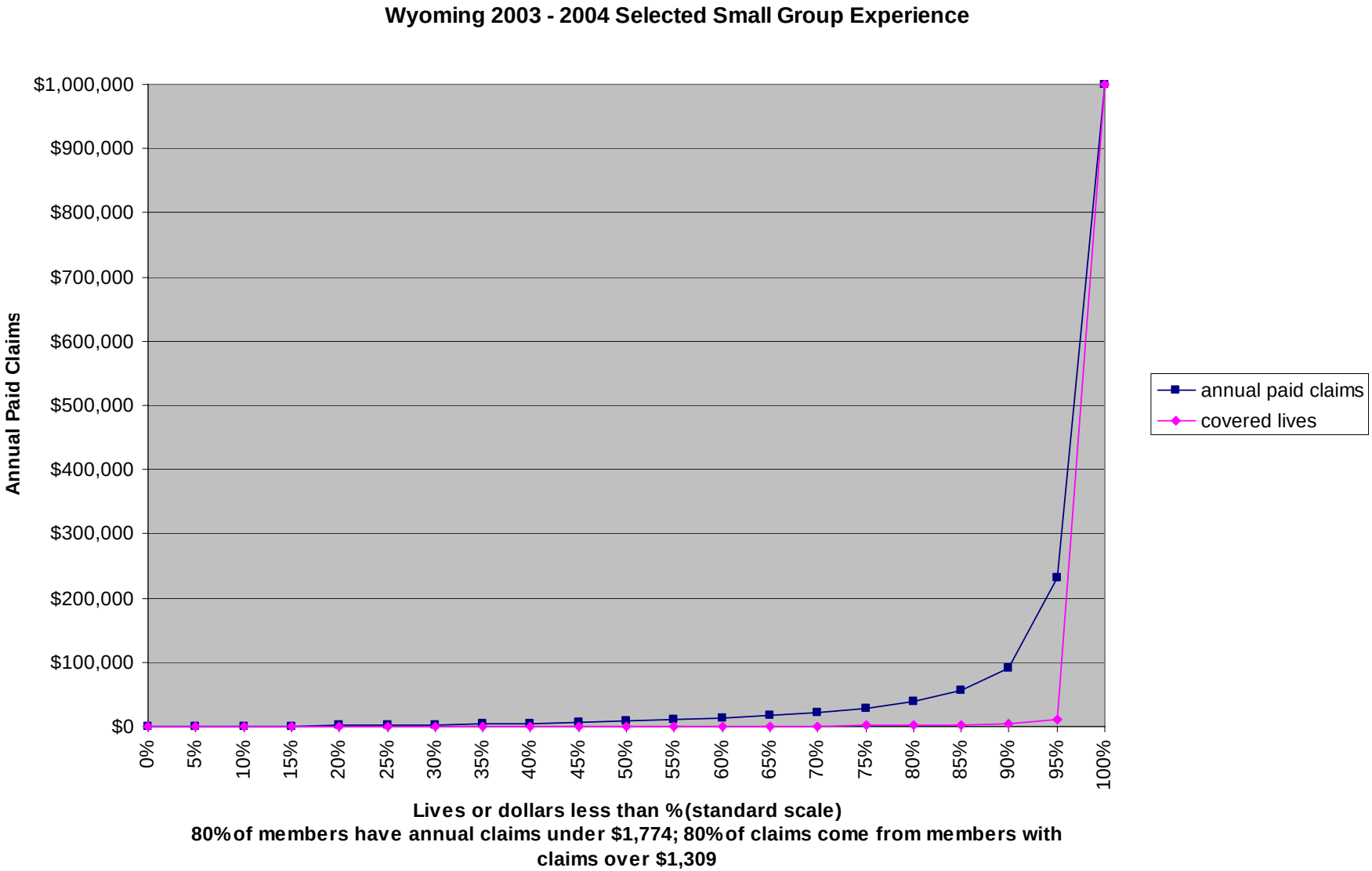
- From 5 carriers in marketplace today: Blue Cross, WINhealth, Guarantee Trust, Trustmark Life Insurance, Trustmark Insurance
- And 1 carrier not presently in the small group market

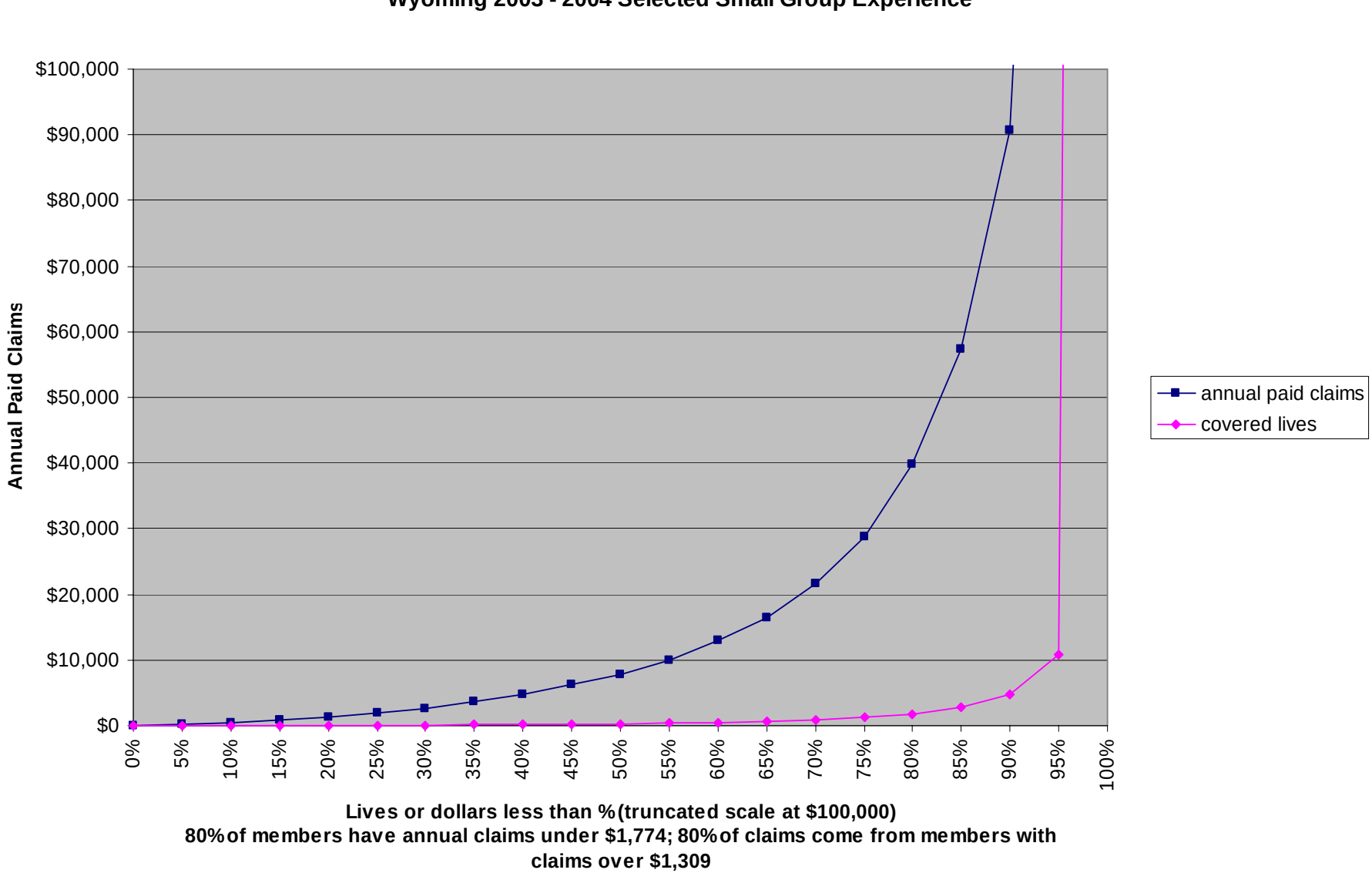
The present state run reinsurance pool (WSEHRP) is neither an enticement nor a hindrance. To have an impact on affordability, predictability and accessibility any modifications to WSEHRP must be substantial (i.e. subsidized premiums).

Small Group Data

- From 5 carriers in marketplace today: Blue Cross, WINhealth, Guarantee Trust, Trustmark Life Insurance, Trustmark Insurance
- 2003 and 2004 incurral dates
  - 519,013 member months (77% of small group market)
  - Average medical and Rx claim pmpm = $211.82
  - 20% of the covered lives produced 76% claim costs
    - 20.0% of members had claims exceeding $1,774/year
    - 76.0% of the incurred claim values exceeded $1,774 pmpy
  - 44% of the claims were from 5% of the population


Wyoming 2003 - 2004 Selected Small Group Experience
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
$0
$150
$300
$450
$1,000
$2,500
$5,000
$15,000
$30,000
$45,000
$70,000
$100,000
$175,000
$250,000
$500,000
annual claims
covered lives
Paid claims exceeding $ threshold (uneven $ scale)
20% of members have annual claims that exceed $1,774; 76% of annual paid claims are from members exceeding $1,774 per year


Wyoming 2003 - 2004 Selected Small Group Experience
$1,000,000
$900,000
$800,000
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$0
Annual Paid Claims
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%
50%
55%
60%
65%
70%
75%
80%
85%
90%
95%
100%
annual paid claims
covered lives
Lives or dollars less than %(standard scale)
80% of members have annual claims under $1,774; 80% of claims come from members with claims over $1,309


Wyoming 2003 - 2004 Selected Small Group Experience
Annual Paid Claims
$100,000
$90,000
$80,000
$70,000
$60,000
$50,000
$40,000
$30,000
$20,000
$10,000
$0
0%
5%
10%
15%
20%
25%
30%
35%
40%
45%
50%
55%
60%
65%
70%
75%
80%
85%
90%
95%
100%
annual paid claims
covered lives
Lives or dollars less than %(truncated scale at $100,000)
80%of members have annual claims under $1,774; 80%of claims come from members with claims over $1,309

Reinsurance Model Alternatives

Unsubsidized Premiums

- Prospective with alternative WSEHRP formula:
  - Current: 100% after $8,000
  - Alternative: 90% from $25,000 to $100,000; 100% thereafter
  - Reduces reinsurance premiums and assessments by approximately 50%; but more difficult to make ceding decision, and no impact on Wyoming Small Group market or premiums.

Reinsurance Model Alternatives

Unsubsidized Premiums

- Retrospective WSEHRP (similar to outside reinsurance)
  - voluntary election, regular premium payments on all covered lives
  - reimbursement formula something like 90% from $25,000 to $100,000; 100% thereafter; pmpm premium estimate $70 - $90
  - difficult to be cost competitive versus outside reinsurance
    - Outside reinsurers do not reimburse $ for $
    - Outside reinsurers have significant spread of risk, economies of scale, and sophisticated investment portfolios
  - carriers only interested in a WSEHRP modification if it's more competitive than outside reinsurance contracts.

Reinsurance Model Alternatives

Broader Assessments and/or Premium Tax Credits

- Broader assessment estimates– assuming WSEHRP assessment of $1M and 5% profit margins
  - All Health Companies: 0.61% of premium (or 12% of profits)
  - All Health and Life Companies: 0.13% of premium (or 3% of profits)
  - All Health, Life and P&C Companies: 0.07% of premium (or 1% of profits)
- Premium Tax Credit
  - For current small group carriers: not enough health premium tax being paid by small medical carriers (approximately $700,000 after other credits) to cover full $1M assessment

Reinsurance Model Alternatives

Subsidized Premiums mechanics alternatives

1. Individual member reinsurance subsidy: state operates a reinsurance pool for qualified lives with no carrier reinsurance premium requirements or assessments; carriers establish own rate for eligible population recognizing state support (Healthy New York)
2. Guaranteed loss ratio: carriers participating in program are to sell subsidized rates and guaranteed by the state to achieve a certain margin (HCG Arizona)

Subsidized Reinsurance Models

Key Assumptions

All analysis is illustrative based on the following and is for discussion purposes only

2005 average premium pmpm: $300 small group; $250 individual	Take-up factor = -0.35 small group; -0.43 individual
Average small group loss ratio = 80% Average individual loss ratio = 60%	# dropping coverage due to cost = 0
Retention on premium growth: commissions 5% small group and 10% individual; variable admin = 50% of remaining retention; fixed admin 0%	Current Small Group membership = 27,000; Current Individual membership = 30,000 Current Uninsured population = 80,000 (15,000 without jobs, 44,000 with SG jobs, 21,000 with LG jobs)
Provider collection on those previously uninsured = $0	Design for subsidy to new, uninsured lives will be established to mitigate adverse selection and crowd-out.

Reinsurance Model Alternatives

Subsidized Premiums: small group employers only

- Take-up factor by uninsured Small Group of -0.35% (for a 10% reduction in premium % of uninsured decreases by 3.5%)
- What is the target audience and how far will the money go?
  A. Existing small group purchasers: $10M reinsurance subsidy could drop rates by an estimated 10% (before trend)
  B. New, targeted small group purchasers: $10M reinsurance subsidy could drop rates 40% (before trend) for an estimated 6,500 new members (from small group employers)
  C. Mixed: $10M reinsurance subsidy could drop rates 5% for all purchasers + additional 25% (=30% total) for new, targeted purchasers of 4,600 members (from small group employers)

Impact of Subsidy

$10 Million per year to Small Group Employers only

Subsidy recipients	Premium reduction	Growth in SG market	State Reinsures (example)	Impact on Uninsured Population	Impact on charity care	Impact on carrier surplus
A: Current	10% before trend	0%	70% $70k-$200k; then 100%	No change	No change	No change
B: New	40% before trend	24% (6,500 lives)	80% $10k-$50k; 85% thereafter	8% reduction	$19 M reduction	$1.8 M increase
C: Mixed (50/50)	Current: 5% New: 30%	17% (4,600 lives)	New: 90% $20k-$50k; then 100%	6% reduction	$13 M reduction	$1.2 M increase

Reinsurance Model Alternatives

Subsidized Premiums: small group and individuals

- Take-up factor by uninsured Small Group of -0.35% (for a 10% reduction in premium % of uninsured decreases by 3.5%), plus additional 4.3% reduction from individuals
- What is the target audience and how far will the money go?
  A. Existing small group and individual purchasers: $10M reinsurance subsidy could drop rates by an estimated 5% (before trend)
  B. New, targeted small group and individual purchasers: $10M reinsurance subsidy could drop rates 20% (before trend) for an estimated 11,700 new small group and individual
  C. Mixed: $10M reinsurance subsidy could drop rates 2.5% for all purchasers + additional 12.5% (=15% total) for new, targeted purchasers of 8,300 small group and individual members

Impact of Subsidy

$10 Million per year to Small Group Employers and Selected Individuals

Subsidy recipients (SG and I)	Premium reduction	Growth in SG and Ind'l market	State Reinsures (example)	Impact on Uninsured Population	Impact on charity care	Impact on carrier surplus
A: current	5% before trend	0%	75% $200k-$500k; then 100%	No change	No change	No change
B: new	20% before trend	33% (11,700 lives)	70% $30k-$100k; then 100%	15% reduction	$26 M reduction	$3.7 M increase
C: mixed (50/50)	Current: 2.5% New: 15%	14% (8,300 lives)	New:70% $50k-$100k; 100% thereafter	10% reduction	$18 M reduction	$2.6 M increase

To Get 20% Reduction in Uninsured

Subsidy to uninsured only

- From Small Group and Individual: 30% premium reduction to new and 0% reduction to existing = $18M subsidy
- From Small Group only: 50%+ subsidy

Split subsidy 50%/50% existing insured and uninsured

- From Small Group and Individual: 30% premium reduction to new and 8% reduction to existing = $36M subsidy
- From Small Group only: 50%+ subsidy

Additional Considerations

- Target small employer, BG1, other targeted individuals
- Promotion of certain programs / designs
  - Networks
  - Disease management
  - High deductible health plans and HSAs
- Mandatory or voluntary carrier participation
- Role of high risk pool (same pre-ex and other restrictions – not to select against subsidy model)
- Funding: federal grants? Other?
- Impact on state budget: Medicaid; CHP, etc.
- Administrative cost of new reinsurance structure

Health Insurance Reforms: Access and Affordability

- Marketplace
- Federal
- State

Health Insurance Reforms: Access and Affordability

- Marketplace
  - Design
    - High Deductible Health Plans (in conjunction with Health Savings Accounts) and other cost sharing
    - Tiered networks
    - Eliminate barriers to cost effective care (Pitney Bowes)
  - Contracting
    - Pay for performance and other alignments of incentives
    - Network reconfiguration
    - Data analysis and evidence based medicine
  - Wellness and patient education
  - Large employer grouping to offer employee-pay-all coverage to ineligible employees

Health Insurance Reforms: Access and Affordability

- Federal
  - Health Savings Accounts (also HRAs)
  - Malpractice reform
  - Eliminate, or dampen, tax favored status of medical insurance
  - Association Health Plans
  - Additional tax deductibility of insurance
  - Cost reduction efforts for Medicare and Medicaid

Health Insurance Reforms: Access and Affordability

- States
  - High risk pools (WHIP)
  - Premium subsidies and/or tax credits
  - Mandate free designs
  - Employer mandates and Play-Or-Pay (Wal-Mart)
  - Individual mandates
  - Subsidized reinsurance (Healthy New York)
  - Medicaid eligibility and cost sharing: contraction or expansion
  - Small group rating bands: contraction or expansion
  - Opening up state employee plan to other public employers, small employers, and/or individuals